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Comcast: Newfound Clout, Bare-Knuckle Tactics

Giant Cable-TV Operator Flexes Muscle to Cut Programmers' Fees, Alter Industry's Balance of Power

By Joe Flint and Peter Grant

AT A RECENT charity dinner honoring Ralph and Brian Roberts, respectively the chairman and chief executive of Comcast Corp., some of the invitees were asked to put together video tributes to the men and their company. Cable channel Court TV's chairman, Henry Schleiff, complied, with a vignette showing him and another executive standing outside a burning building, covered in dirt and bandages. All things considered, Mr. Schleiff deadpanned, the network didn't fare too badly in its negotiations with Comcast.

Although the video was a joke, Comcast's newfound power in the industry is no laughing matter for cable programmers. With more than 21 million subscribers, Comcast is now the nation's biggest cable operator ever, by a wide margin, and is looking to use this clout to shift the balance of power between those who supply content and those who distribute it. Since closing on its $51 billion acquisition of AT&T Broadband late last year, Comcast has told Wall Street that it hopes to cut programming costs by $270 million this year.

Cable operators often gripe that the fees they pay for the channels they carry have gotten out of control -- an assertion that isn't completely unfounded, particularly when it comes to sports. Walt Disney Co.'s ESPN, for example, has been steadily raising its fee 20% per year.

Comcast is now trying to lower its programming costs by forming and buying its own networks. Earlier this year, it announced plans to launch a new channel targeted at African-American viewers, in a venture with Radio One Inc. It is also in talks with Cablevision Systems Corp. to buy that company's controlling interest in regional sports networks in Boston, Chicago and San Francisco, say people familiar with the situation.

The cable operator has been so tough in negotiations that some programmers are reminded of John Malone, the bare-knuckles cable mogul. The operator has already warned some programmers that it will be looking for rate decreases of as much as 10%. Comcast has told others to expect smaller increases than they have enjoyed in the past, and has strongly hinted that rates will depend on networks' willingness to provide programming for video-on-demand, high- definition television and other new digital services Comcast is selling.

The company is being most aggressive with channels owned by media giants such as AOL Time Warner Inc., Disney, Viacom Inc. and News Corp., who are just as wary as Comcast is of government meddling in business. "History shows these negotiations are best left to the world of private enterprise rather than having exogenous forces including the government try to impose solutions," says Mr. Schleiff of Court TV, which is owned 50-50 by AOL Time Warner and Mr. Malone's Liberty Media Corp.Comcast contends it is only asking programmers for the discounts that large operators have always enjoyed. "Size has always mattered in this industry," says Steve Burke, president of Comcast's cable business.

With cable operators facing increased competition from satellite, and getting heat from Washington about raising their rates to customers, lowering costs is a huge priority. Just days after Comcast closed the AT&T deal, it sued Liberty Media's pay movie channel Starz Encore to get out of the pricey deal it inherited. One of its first postmerger hires was Matt Bond, a veteran negotiator who had been AT&T Broadband's top programming deal maker. As Brad Samuels, who negotiates carriage deals for cable channel Comedy Central, points out: "There is a difference between reading the deals and having the guy who did the deals."

This is more than a battle between operators and programmers: Higher programming costs get passed on to the consumer, and operators say they are trying to hold the line so they won't have to raise rates. But programmers and customers sometimes complain that operators are the ones gouging. For example, Comcast subscribers who just want "basic cable," and not the new multichannel digital cable, are being asked to pay a big premium for HBO and Showtime.

In Seattle, for example, Comcast is asking for $36.99 for basic cable and an additional $15.99 for HBO or $14.99 for Showtime, a few dollars higher than the industry average. Only if a subscriber there is willing to buy digital cable do those costs come down.

Comcast's markup doesn't go to the channels, whose cut of the subscriber fee -- usually between $5 and $6 a month per subscriber -- is unaffected whatever Comcast charges. But the channels fear the high price tag on basic will irk subscribers. Both HBO and Showtime have seen their subscribers drop in the past several months, according to research firm Kagan World Media. After years of growth, HBO has lost more than 100,000 subscribers from June of last year through this spring, while Showtime lost more than 400,000 subscribers in the same period, according to Kagan. Both channels are gaining in satellite delivery, however. Comcast says pricing decisions are made market by market.

Another major flash point has been Comcast's claim that its contracts with programmers give it the right to "cherry pick" -- or go through AT&T's contracts with programmers and, if the terms are better, apply that lower rate rather than the existing Comcast rate, or vice versa. Court TV's recent battle with Comcast was over the operator's efforts to cut the rate the AT&T systems had been paying. Although Court TV's Mr. Schleiff declines to comment on his recent deal with Comcast, he says the process "is a little bit like the sausage factory -- it's not always pretty, but in the end the product is satisfactory to everybody."

Disney is among the programmers who have contended that Comcast's deal with AT&T was technically a merger, not an acquisition, so certain rights the operator is claiming do not apply. Comcast scoffs at this reasoning. "Anyone who would look at this transaction and try to argue with a straight face that Comcast has not acquired AT&T Broadband is truly stretching," says Comcast's Mr. Burke.

(See related article: "But Changing Bad-Service Image Is Tough, Particularly as Company Integrates AT&T Broadband Unit" -- WSJ June 27, 2003)

---- INDEX REFERENCES ----

COMPANY: AOL Time Warner Inc. (AMRONL); Cablevision Systems Corp. (CABSY); Comcast Corp. (Cl A) (COMCST); COURTROOM TELEVISION NETWORK LLC (COURTT); Walt Disney Co. (DSNYW); Liberty Media Corp. (LBMED); NATIONAL AMUSEMENTS INC (NATAM); News Corp. Ltd. (NEWSC); Viacom Inc. (Cl A) (VIACMI)

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